Shipping's Share in Foreign Trade

Fundamentals of Ocean Transportation

Guaranty Trust Company
of New York

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Guaranty Trust Company of New York

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Illustrations

Before the Civil War America led the maritime nations of the world. American clipper ships outsailed all others.

Photograph by Edwin Levick

Today, for the first time in more than half a century, the United States is in sight of the long-desired goal of transportation—American products in American owned and operated vessels.

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THE necessity for the expansion of our foreign trade is as vital as any confronting American industry today. Increased productive capacity created by the war for war's needs cannot be eliminated with the coming of peace without the gravest consequences to the commercial, financial, and economic welfare of the entire nation. The machinery assembled to meet the demands of war cannot and should not be wholly dismantled, but must, in large part, be turned into new and permanent channels of production. Capital cannot scrap its investments, nor labor its new-found scale of employment. The country cannot consume all it produces on the present basis of output, and an outlet must be found for the surplus. Commercial salvation lies in greater foreign trade through the development of new markets and the expansion of old ones.

Shipping

Transportation is the link between the producer and the consumer—the means of bringing the goods to the ultimate buyer. More than ninety per cent. of the exports and imports of the United States are carried by water. America's future prosperity, therefore, lies largely on the seas. Shipping is the prime factor of international trade, and that nation is best equipped for such trade that has the best ocean-carrying facilities. For the first time in more than half a century the United States is in sight of the long-desired goal of transportation for the bulk of American products in American owned and operated vessels.

Before the Civil War America led the maritime nations of the world. American clipper ships outsailed all others. American shipyards stood first in quantity and quality of output. American tonnage was the greatest in volume.

Before the present war, however, shipping conditions were very different. Ninety per cent. of the foreign trade of the United States was then transported in foreign vessels. American sea-going tonnage represented barely two per cent. of the world's total. American shipyards were turning out about one ship to Great Britain's six, and producing only about one-tenth of the world's output. Seven-eighths of the registered American shipping was engaged in lake, river, and coastwise trade. Transfer of tonnage from American to foreign registry was increasing steadily.

Our Present Position

Today this position is almost completely reversed. The ocean-going tonnage of this country is more than five times the pre-war total, and about equal to the former combined lake, river, and coastwise shipping. American shipyards are producing twice as many vessels as Great Britain, and as many as the United Kingdom and all other countries combined. The American tonnage total is within striking distance of England's, and is far greater than that of any other nation. About forty per cent. of the exports and imports of the United States is being carried in American vessels. Nearly half a billion dollars of American private capital has been invested in American shipping and shipbuilding enterprises since the beginning

Photo by courtesy of The Rudder

More than twenty new cargo carriers being equipped with engines at a shipyard in Newark Bay

of the war. Billions have been expended by the Government in the creation of a great merchant navy, and it is planned to spend billions more. A huge organization has been built up which represents hundreds of shipways, thousands of ships, hundreds of thousands of workers, and millions of dollars in pay-rolls.

Tonnage Terms Defined

The use of different kinds of tons in the official statements of ship destruction and production made by the various Governments has led to much misunderstanding regarding the actual tonnage holdings of the different countries. The statements of the United States Shipping Board are made in deadweight tons, but the United States Bureau of Commerce and Navigation, the British Admiralty, and other organizations use gross tons. In some other countries the net ton is used as the standard. An understanding of the difference in the various kinds of tonnage used in shipping statistics is necessary in order to make an intelligent comparison of the maritime situation.

Gross tonnage represents the entire cubical capacity of a vessel, in units of 100 cubic feet, including space occupied by cabins, engines, boilers, and coal bunkers.

Net tonnage expresses in units of 100 cubic feet the vessel's carrying capacity, the space occupied by cabins, machinery, etc., being deducted.

Deadweight tonnage represents the maximum weight of cargo, bunkers, consumable stores, and all weight, including passengers and crew.

Measurement tonnage is used to express the *space* cargo takes up rather than its *weight*. The unit in this case is forty cubic feet.

Displacement tonnage is used in the case of warships to denote the actual amount of water displaced by the vessel.

For conversion purposes, in dealing with groups of tonnage, roughly, gross tonnage is two-thirds of deadweight, and net two-thirds of gross. For instance, 300,000 deadweight tons are the equivalent of 200,000 gross tons. Gross tonnage is most used for commercial purposes and will be employed here, unless otherwise stated.

Great Increase in Our Shipping

How America's shipping has gained during the war and subsequently, while that of other nations has decreased is shown by the contrast between sinkings and seizures and new building. The following table (in gross tons) covers the world, the Central Powers excepted:

	United States	United Kingdom	Other Countries	World
At outbreak of War	7,900,000	19,250,000	15,250,000	42,400,000
War losses	900,000	9,000,000	5,100,000	15,000,000
Gross reduction to.	7,000,000	10,250,000	10,150,000	27,400,000
Added by building.	3,400,000	4,800,000	2,500,000	10,700,000
Added by seizures .	500,000	700,000	1,175,000	2,375,000
Tonnage November 11, 1918	10,900,000	15,750,000	13,825,000	40,475,000
Added to April 1, 1919 (net estimate)	900,000	675,000	550,000	2,125,000
Tonnage, April 1, 1919	11,800,000	16,425,000	14,375,000	42,600,000
Gain or loss. . . .	†3,900,000	−2,825,000	−875,000	†200,000

With the war losses of ships practically restored the world over (the net deficiency of the Central Powers is estimated at about 2,500,000 tons) there remains to be supplied, as already indicated, the normal increase that would have occurred had not the war intervened. This in the pre-war period was at the rate of slightly more than 2,000,000 tons annually, so that the total deficiency to the beginning of 1919 was about ten million tons. shipping

Of America's estimated total of nearly twelve million tons up to April 1, 1919, more than half is sea-going. In fact, Edward N. Hurley, Chairman of the United States Shipping Board, estimates our ocean-carrying tonnage at nearly six and one half million tons.

Growth of Foreign Trade

The growth of the American merchant marine has been attended by a remarkable increase in the foreign trade of the country. From a total of about four and a quarter billion dollars for the year ended June 30, 1914, the aggregate of the country's foreign trade has now grown to more than nine billion dollars annually, and the excess of exports over imports from half a billion dollars yearly to more than three billions.

All the ports of the country have shared in the expansion of trade. How greatly they have shared in it is indicated by the following table, showing the value of the combined exports and imports at the seven leading ports for 1913, as compared with 1917:

	1913	1917
New York . . .	$1,904,926,000	$4,391,319,000
New Orleans .	283,822,000	408,027,000
Galveston . . .	268,012,000	274,784,000
Boston and Charlestown .	216,152,000	443,483,000
Philadelphia . .	161,665,000	573,957,000
Baltimore . . .	149,369,000	418,006,000
San Francisco .	130,486,000	286,917,000

Determination of Freight Rates

To the shipper the question of freight rates is a vital one in normal times. Under the abnormal conditions of the war-period, delivery, not cost, was the first necessity to be considered, and as a result of this, coupled with the conversion of much merchant tonnage to war service, and the consequent scarcity of cargo space, rates rose to record heights until regulated by Government action. Cotton, for instance, crossed the Atlantic at a carrying cost of

Photograph by Edwin Levick, N. Y.

Products of fields, factories, and mines reaching the port of New York for distribution to the four corners of the earth

seventeen cents per pound, occupying less room and paying more for its passage in proportion than a steerage passenger did before the war. Fortunes are reported to have been made in some cases out of the single voyage of a vessel.

An English estimate of the operation of twenty million gross tons of British shipping in 1916 places the gross earnings at considerably more than a billion and three-quarters dollars. A summary of the returns indicates the effect of Government regulation upon rates:

	Average per ton	Gross earnings
11,000,000 tons at "Blue Book Rates" (fixed by the Government) .	$45	$495,000,000
4,000,000 tons, partly under directed rates; *i.e.* care of sugar, wheat, meat, iron ore, etc . .	110.00	440,000,000
5,000,000 tons free; *i.e.*, at current market rates	180.00	900,000,000
20,000,000 tons	$98.75	$1,835,000,000

Many factors enter into the determination of rates beyond the question as to whether the supply of tonnage is greater or less than the volume of demand. The importance of this condition as an influence on rates is indicated by the fact that experts estimate that so small a variation as two and one-half per cent. in the amount of tonnage necessary for the world's needs at a given time will result in a rise or a slump in freight, accordingly as the demand exceeds the supply, or the reverse. In terms of shipping, however, a two and one-half per cent. variation in the world's merchant fleets means more than a million gross tons, the equivalent of hundreds of vessels.

In determining ocean freight-rates the chief basic items of consideration include the interest on the cost of the ship, depreciation of ship, insurance charges, operating expenses—coal, supplies, wages, and maintenance of crew, etc.—port charges, tonnage dues, and labor.

While agreements between ocean lines tend to regulate competition and to play an important part in the fixing of rates, there is small probability of a point being reached where anything resembling an actual monopoly in ocean-carrying can be effected. The character of charter-traffic, in distinction from line-traffic, is an important element in the situation. Competition is unrestricted in charter-traffic, except in a few regions of lesser importance, and the great volume of this tonnage available must always act as an offset to the operation of line-traffic on a more or less non-competitive basis. Despite many kinds of conference arrangements, competition between "tramp" vessels and between "tramps" and the regular lines continues unabated. And competition between rival ports and rival countries is also to be reckoned with. The limited number of ocean lines makes the establishment of working agreements comparatively easy, a condition that does not apply in the case of the thousands upon thousands of "tramps" operating independently.

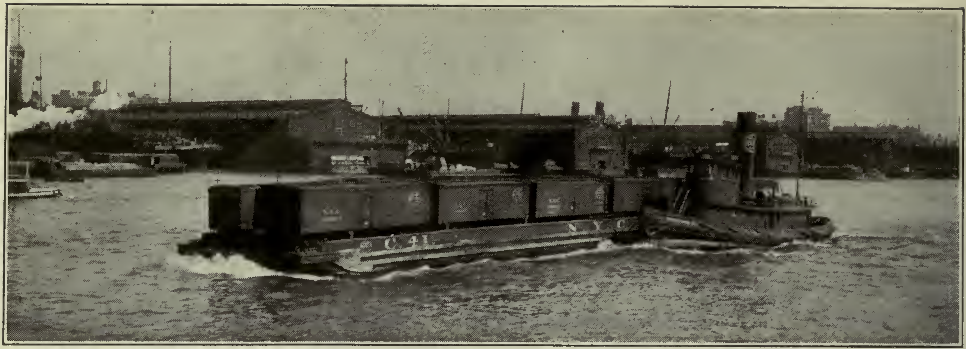
There have, at various times, been agreements between groups of owners of "tramp" vessels, but these have not been of sufficient scope to have any material effect upon the general situation.

In the case of the ocean lines, however, agreements, conferences, and pools have been successfully established and conducted to the end of substituting coöperative regulation for unrestricted competition. Practically all the leading lines plying to and from American ports operate under agreements of various kinds. Before the war the German companies figured prominently in these arrangements.

Conferences constitute the organizations through which the ocean lines con-

Photograph by Edwin Levick, N. Y.

The constant stream of traffic along the water-front of New York



Photograph by Edwin Levick, N. Y.

Huge floats propelled by tugs, transporting to terminal warehouses in New York City, freight cars loaded with goods for foreign markets

duct their pools, understandings, or agreements. While the proceedings are largely informal in some instances and mainly of a consultatory character, in others elaborate organizations are effected, with boards of officers, stated and special meetings, rules of procedure, and provisions for penalties. In some cases officials of the conference are empowered to fix freight rates, commissions, and rebates applicable to all members, and to have access to the books of any or all of the lines. Boards of arbitrators are in some instances authorized to settle any disputes among members.

Coöperation in Shipping

Through pooling arrangements many ocean lines take steps to strengthen the coöperative system. Traffic pools and money pools are conducted for the purpose of assuring each member of a fair share of freight and passenger business, and an allotment of traffic may be provided for. Some agreements go to the point of lumping the net receipts and dividing them on an agreed proportional basis.

The "deferred rebate" system was made illegal, so far as the United States is concerned, by the Shipping Act of September, 1916. This system, used as a protection against the competition of non-conference lines, offered to shippers at the end of a specified period, a rebate of from five to ten per cent. of their payments for freight, on the stipulation that in the intervening period they had given their entire trade to the conference lines.

Complaints against the monopolistic powers of the ocean lines operating under agreement have been made at times. Dominance over rates, slowness in settling claims, indifference in handling freight, refusal at times to publish classifications and rates, and the granting of special rates to favored shippers, are some of the matters that have been brought to issue. The Shipping Act of September, 1916, however, has prohibited many of the features complained of. In addition, the United States Shipping Board has supervisory powers over the entire administration of ocean conferences.

Many advantages are claimed to have resulted from the conferences. Among them is the improved service effected. The cost of operation, it is contended, is reduced, with the result that while the net earnings of the lines are increased, the shipper receives lower rates and greater efficiency of service. Stabilization of rates is another instance of the merits claimed as due to the coöperative working of the lines.

Any marked general reduction in rates may be said automatically to stimulate shipments. A high level usually results in the holding back of large quantities of freight on which urgent delivery is not required, and a sharp cut in rates is the signal for pushing forward this class of goods so that it can be laid down overseas at a satisfactory total cost.

Charter-rates fluctuate much more freely than line-rates because of the much greater competitive element entering into the operation of "tramp" tonnage. There have been numerous instances, in fact, where charter-rates have changed many times in the course of a single day.

Meaning of Commercial Terms

The following commercial terms are most commonly used in connection with the shipments of goods to other countries:

C. F., or C. and F. (Cost and Freight). The goods are furnished and the freight paid—but no other expenses—to place of delivery, as agreed, by the seller. The buyer assumes all risks while the goods are in transit.

C.I.F. (Cost, Insurance, and Freight). The goods are furnished by the seller, who pays the freight and insurance to the point of delivery. All other risks while the goods are in transit are assumed by the buyer.

F.O.B. Destination (Free on Board). All costs are paid and all risks assumed by the seller until the goods reach the place of delivery as agreed.

F.A.S. Steamer (Free Alongside). Goods are to be delivered by the seller alongside steamer on lighter, or on the receiving pier of a steamship company, in proper condition. The buyer assumes all subsequent risks and expenses.

The cargo ton, weight or measurement, was formerly the basis of ocean line freight rates; but the system is no longer universal. Quotations on rates may be for the long ton (2,240 lbs.), metric ton (2,204.62 lbs.), the short ton (2,000 lbs.), or the measurement ton (40 cubic feet); but special commodity rates are growing in use. These may be based on cubic feet, cubic meters, 100 pounds, bushels, barrels, or other specified quantities. (40 cubic feet =2,240 lbs; one cubic meter=1,000 kilos). In case a rate is quoted "per ton, weight or measurement, ship's option," the line reserves the right to charge on a weight basis if the weight of the shipment is in excess of its cubic measurement, or on a measurement basis if the cubic measurement is in excess of the weight. Frequent changes are made by lines from weight to measurement basis, and vice versa, this being done in many cases to equalize rates with those charged by other companies.

In computing the measurement of packages, the shipper should bear in mind that the steamship companies in most instances measure in a rectangular way. The cause of this is that it is not easy to stow irregular shaped packages compactly, because of the difficulty of finding packages that will fit the vacant spaces. It then becomes necessary, in order to prevent shifting of cargo, to utilize dunnage, or timber, for the unfilled spaces.

Photograph by Edwin Levick, N. Y.

Giant cranes swinging freight aboard a transatlantic liner

One condition which operates in favor of those who ship goods abroad through the port of New York, although largely curtailed during the war period, is the free

Photograph by Edwin Levick, N. Y.

Loading cargo for countries south of the Equator

lighterage privilege extended to export freight in carload lots. By taking care to bill to New York "lighterage free," shippers avoid the payment of cartage charges from railroad to steamship pier, and ferriage as well if the transfer has to be made from New York to New Jersey, or from New Jersey to New York.

Free Lighterage Privilege

The "free lighterage" regulations at the port of New York are as follows:

"On carload eastbound 'Lighterage Free' freight (except lumber) three free export lighterage deliveries or one free domestic lighterage delivery will be made from any one car; any additional lighterage deliveries from the same car will be subject to a charge of three cents per 100 pounds with a minimum of $6 for each lighterage delivery, except that any remainder of freight from the same car may be delivered in one lot, at one time, at any one regular station of the railroad company within the "free lighterage" limits, subject to a charge of $1.

"When more than one lighterage delivery from any one car of lumber is made, the charge for each lighterage delivery, after one free delivery, shall be three cents per 100 pounds with a minimum of $6 in addition to the freight charges.

"The free lighterage limits extend from the Battery to 135th Street on the North River (New York side), from Bergen Point, Shooters Island, or Clifton to Fort Lee (on the New Jersey side); on the East River from the Battery to Jerome Avenue Bridge (New York side), and from Astoria to 69th Street, Bay Ridge (on the Brooklyn side.) This territory takes in all the usual piers at which steamers load or discharge."

Certain commodities are excepted from the "free lighterage" privilege, such as bulk freight, or those of an unusually bulky or heavy character.

Freight rates given by the steamship companies are for packages of not more than two tons in weight, except in cases where special arrangement has been made. If the weight limit is exceeded the shipper must arrange to have a hoisting company

load the goods or pay hoisting charges to the steamship company.

Three Classes of Transportation

Transportation service for ocean freight falls into three chief classifications:

1. "*Tramp*," *or chartered*.—This is given by vessels equipped to carry rough and bulky cargo to any destination, unless prevented by legal requirements or insufficient port facilities. "Tramps" may be chartered for single trips or stated periods, and are sometimes placed "on the berth," for whatever cargo may offer. They have a wide range of activity, being tied to no fixed routes. They are constructed with a view to economy and cargo capacity, and not for speed. Compared with the regular line service, they have the advantage of no overhead expense caused by the maintenance of permanent offices and dock facilities, and they also benefit by securing their cargoes chiefly through ship brokers, thus avoiding the cost of operating an elaborate freight soliciting organization. Their disadvantages lie in the fact that they do not carry the better paying high-class cargo that the regular lines can handle in broken lots and which calls for speedy carriage. Nor have they the money-making opportunities offered by the carrying of mails, passengers, and express goods. Their patronage is also more irregular than that of the other classes of cargo-carriers.

2. *Regular lines*.—These give a fixed service to established points on schedule. Some carry freight only, others passengers as well, and still others passengers only. The freight-carriers are sometimes placed "on the berth" at low rates to obtain part cargoes, in order to avoid carrying ballast, from which, of course, no profit is derived. They are also in a position to compete with the "tramps" for the carriage of bulky goods. They are usually larger, speedier, and better equipped than the "tramps," and, unlike the latter, practically all are fitted with engines, whereas, many "tramps" are dependent on their sailing power only.

3. *Privately operated ships*.—These are operated chiefly to carry goods for the business concerns which run them; but to fill out cargo or obtain a return consignment, they frequently take freight for other concerns. They include many specialized types of ships, such as colliers, fruiters, and tankers.

Through freight-forwarders information may be obtained as to ocean freight rates, and the sailing dates of vessels; arrangements can be made for storage of freight after arrival; steamer bookings effected; deliveries of goods made; insurance can be secured; and shipments cleared through the Custom Houses. In many cases, freight-forwarders have connections at other American ports and in foreign cities. By this means they can arrange for shipments with a view to the most economical and quickest route.

Ocean Routes

While ocean routes are too numerous to permit anything like a detailed presentation in this booklet, the chief ones may be said to fall into a few divisions, which may be classified roughly, as follows:

(A) *From the north-eastern ports of the United States to the British Channel*.—This route connects the leading commercial nations of the globe, and over it passes not far from twenty per cent. of the total tonnage of the world. Skirting the United States seaboard to the Newfoundland Banks, it then curves across the Atlantic. Branching off at various points of this route, other lines touch ports of Europe from the Mediterranean to the Baltic, and ports of America from the Caribbean Sea to Canada.

(B) *From the eastern seaboard of the United States*, and from southern and western Europe, through the Mediterranean and the Suez Canal to China, Japan, and the East Indies.

(C) *The South African route*—connecting Atlantic ports of America and Europe with the southern, eastern, and western coasts of Africa, and with New Zealand and Australia. Sailing vessels also use this route for connections with the Orient and the East Indies, their inability to navigate the Red Sea barring the Suez Canal route to them.

(D) *The South American route*, from North Atlantic to South American, east and west coast, ports.

(E) *The route around South America*, connecting American and European Atlantic ports with the Pacific coast of the Americas.

(*Continued on page 16*)

Training Recruits to Man

Respect for the flag is inculcated early in the recruit's career

← Apprentices receiving their uniforms

Photographs by courtesy of The Rudder

Manning the life-boats is one of the most essential features of the training of recruits

New Merchant Marine

"All-together"
Apprentices working like veterans

Learning to tie a reef knot →

Scraping deck on a U. S. Shipping Board recruiting service training ship

Photograph by Edwin Levick, N. Y.

A freighter, shepherded by puffing tugs, proceeding to her dock at New York

(F) *The Gulf and Caribbean route,* affording access to the ports of the United States Gulf Coast, Mexico, Central America, the north coast of South America, and the West Indies.

(G) *The Pacific route,* connecting North America with Asia, over which an extensive trade with China, Japan, and the Philippines is carried on.

(H) *From the North American Pacific* coast to New Zealand, Australia, and the South Sea islands.

(I) *The Panama Canal route,* the development of the use of which promises to be rapid and extensive with the relief from the abnormal conditions created by the war. European trade with the west coast of North and South America, and America's Atlantic and Gulf trade with the Pacific coast and the Orient, can be expected to move to an increasing degree by way of Panama.

Problem of Profitable Voyages

These are the principal ocean-carrying trade-routes; but they are only a few of the highways followed by the merchant fleets of the world. The ramifications are almost endless; they shift as the trade demands of the foreign markets increase or lessen.

To find freight that will make each voyage profitable is the constant problem of the ship operator. Idle ships in port are costly, and costly, too, is the ship which is unable to obtain a cargo and is forced to make a return voyage in ballast, using fuel, supplies, and labor for which there will be no return in earnings. To obviate this, triangular voyages are made. With "tramp" vessels this practice is common, but it is carried out even by steamship lines operating over established routes. As an instance of the lengths to which it is sometimes necessary to go to operate at a profit, a steel corporation, in order to put its service from New York to Vancouver on a paying basis, was obliged to sail its ves-

sels from Vancouver to France before returning to New York. Four complete changes of cargo were required, the itinerary being:

From New York to Vancouver, with steel;

Vancouver to the Gulf of California, with coal or lumber;

Gulf of California to Dunkirk, France, with copper matte;

Dunkirk to New York, with French chalk.

Shipper's Papers

Agreement having been reached in regard to the ocean freight-rate on the goods to be transported, the employment of a series of commercial documents becomes necessary. These may be styled *Shipper's Papers.* They constitute the record of the dealings between the carrier and the shipper, between the shipper and the Government authorities, the consignees, and insurance concerns. A second series of documents used in connection with foreign trade may be entitled *Ship's Papers.* These represent the dealings of the carrier with the Government, and in the operation of its vessels.

Export and Import Licenses.—Although the great majority of restrictions on goods shipped to, and received from, other countries have been removed, the Government still requires the filing of license applications with the War Trade Board. Exports were first placed under regulations, soon after America's entry into the war, the object being: (1) to prevent materials from reaching the enemy either directly or indirectly; (2) to conserve a sufficient supply of commodities to meet domestic needs; and (3) to insure a reserve from which to fill the requirements of our Allies. Imports were made subject to restriction in the fall of 1917. The method of regulation adopted has been an important factor in the conservation of cargo space.

Shipping Permit.—A form giving permission to the shipper or his agent to deliver the goods for shipment at the carrier's wharf on a specified date.

Dock Receipt.—Upon delivery of the goods a receipt is issued by the receiving clerk at the wharf. In it are recorded the name of the vessel on which the shipment is to be made, the destination and consignee, and the distinguishing marks, weights, and measurements of the various packages.

Shipper's Manifest (or export declaration).—The next step is the clearance of the goods at the Custom House. It is required by the Government that the shipper, or his agent, file a manifest giving in detail the goods to be exported. The manifest must be sworn to, as it is from this source that the Government prepares its statistics of exports. The Collector of Customs retains the original and a duplicate is turned over to the carrier.

Consular Invoice.—This document is required when exports are consigned to Central and South American countries, Cuba, Mexico, and Portugal. The various countries have different forms which may be obtained and sworn to at the consulates, fees being charged for certification. The number of copies required varies from one to seven, the various countries' regulations in this respect differing. Particulars must be given of the shipment and its value, shipping charges, etc.

Certificate of Origin.—By a number of foreign countries, among which are Argentina, France (in the case of most goods), Italy, Japan, Nicaragua, Paraguay, Spain, Turkey, and Uruguay, a certificate is required stating that the goods to be exported are products or manufactures of the United States. Where countries have two tariff schedules, this certificate is necessary to secure the minimum duties. Various fees are charged in connection with the execution of certificates of origin.

Non-Dumping Certificate.—Some of the British Colonies—Canada, South Africa, Australia, and New Zealand—require a certification by the shipper that there is no difference between his export prices and discounts and those granted on the same goods in the United States domestic markets; or, he can give a list of his domestic and export prices and discounts. By these means the Colonies seek to prevent the flooding of their markets with foreign goods at sharply cut prices, or prices below the cost of output.

Exporter's Invoice.—This is a detailed private invoice prepared by the shipper when the goods are ready for shipment. It describes the wares shipped by quantity, weight, measurement, and price, as well as giving the name of the vessel concerned, the destination of the goods and the distinguishing markings on the packages. It also

Loading cotton for export at one of our southern ports

bears the signature of an official of the shipping concern. A number of copies are made of the invoice. If a bill of exchange, or documentary draft, is negotiated by the shipper, the bank will require two copies to be attached to the bill of lading. The foreign consignee should receive a copy, which he will use in clearing the goods through the customs on their arrival abroad. The shipper will need one copy for his files, and, if shipping to the seaboard from an inland point, he will require another for the use of his agent at the port of shipment.

Statement of Charges.—This is a document used on occasion, as supplementary to the exporter's invoice. In it may be listed separately the charges on rail and ocean freight, insurance, port services, etc.

Memorandum Note.—A list sometimes prepared for the benefit of the consignee, showing what is contained in each package, in contrast with the exporter's invoice, which indicates the package in which each article is contained.

Ocean Bill of Lading.—The most important of the shipper's papers. It is customarily drawn up by the shipper on forms which the carrier supplies, and which are signed by the latter after he has gotten the dock receipt and the shipper's manifest. Besides being the final receipt from the carrier, the ocean bill of lading constitutes a shipping contract between the carrier and shipper. It becomes a negotiable document and may be used by the shipper as the basis for a draft if it is drawn to his order. It is not the usual practice however, for the ocean bill of lading to be drawn in the consignee's name, unless he has a special agreement with the shipper, or unless advance payment has been made or security arranged before shipment. The basis of financial settlement most commonly employed in foreign trade is by drafts, or bills of exchange, to which have been attached a shipper's invoice, insurance policy, and ocean bill of lading. A number of copies of the bill are required, varying according to the nature of the transaction. The banks, if settlement is to be made by draft, will require two or more negotiable copies and the possession of all the negotiable copies. Non-negotiable copies will also be needed by the shipper, the carrier, and the consignee for filing, and by foreign consuls to meet the provisions of law.

Export Bill of Lading.—This is used in cases where the exporter at an inland point wishes to bill his goods from point of shipment to foreign point of receipt, port or interior. By obtaining a through bill of lading from a railroad he obviates the necessity of securing a railway bill of lading to the export port and then an ocean bill of lading to the foreign port of receipt. The export bill of lading constitutes a triple contract, covering: (1)—Shipment by rail or water to port of export; (2)—Shipment by sea; (3)—Shipment from foreign port of entry to inland destination.

Parcel Receipt.—Issued by ocean carriers to expedite transportion of small packages, most commonly samples, although general merchandise is so shipped on occasions. The value, weight, and dimensions of the goods carried are restricted. Parcel shipments are designed to avoid the high rates that would have to be paid for small lots of goods under the minimum freight

charge usually stipulated in ocean bills of lading, and under which nothing less than a ton rate or a specified amount would be accepted, no matter how small the consignment. Numerous shipping lines are now using these receipts.

Charter Party.—An agreement between the charterer and the vessel owner, or his agent, used when shipments are made in chartered vessels, or "tramps." There are two general kinds, one used in cases of a charter for a specified period, the other where the charter is for a single trip. Charter parties may cover many points, including capacity of vessel, methods of discharge and loading, demurrage, insurance, rate of compensation, ship-broker's commission and freight-brokerage, etc. The owner, where the charter is by trip, operates his vessel and remains in possession of it. The rate of pay is fixed on the amount of freight carried, at a price per ton, bushel, quarter, 100 pounds, or other unit of cargo value. Where a time charter is taken, the ship is in the charterer's possession. The general custom is for the charterer to pay an agreed rate per deadweight ton. He also supplies fuel and pays all port expenses, except those for provisions and crew. In the case of a time charter the rate of payment may be based on the net register tonnage of the ship.

Ship's Papers

The principal *ship's papers* used by ocean carriers are:

Ship's Manifest.—A list of all consigned cargo, the destination of each item, its quantity, weight, distinguishing marks, and numbers. Before the vessel clears or enters a port a copy of the manifest must be filed with the Collector of the Port. It is used in connection with the shippers'

American cotton on lighters in the harbor of Barcelona, Spain

Photograph by Brown Bros., N. Y.

Along the docks at Liverpool

manifests as the basis of the Government's foreign trade statistics and also as a check on import duties. It is also necessary to file a copy at the foreign port of clearance or entry and other copies are carried for use on the ship.

Bill of Health.—This is issued by the port authorities, and certifies that no dangerous or contagious disease in an epidemic form exists in the port of sailing.

Shipping Articles.—An agreement between captain and crew as to the conditions under which the voyage is undertaken. A certified copy must be obtained before the vessel can clear for a foreign port.

Crew List.—In addition to the shipping articles a list of the crew, giving the name, description, birthplace, and residence of each member, must be deposited with the Collector of the Port before sailing and a certified copy secured for use on the voyage.

Certificate of Admeasurement.—Also known as *Ship's Register.* It gives a list of measurements of various parts of the vessel, by which the gross and net tonnage of the ship is arrived at.

Inspection Certificate.—Issued by the Government Inspection Service, and certifies that the regulations concerning officers, crew, and equipment have been complied with.

Log-Book.—A record of the ship's voyage, which must be kept by the master while the vessel is at sea.

Clearance Certificate.—This having been secured, the vessel is free to leave for a foreign port.

Marine Insurance

Marine insurance is not only a protection to the shipper and consignee, but also an economic factor in the price of goods by virtue of the fact that it eliminates the risk of loss to the consignor in case of non-delivery; and, further, it is necessary in negotiating credit upon the consignment. In addition to covering the loss of the ship and its cargo, marine insurance can by agreement include the freight rates. In the case of freight forwarded by rail the shipper's position is different. Railroads are liable for the loss of freight and damage to it while in their care, except in extraordinary circumstances. These exceptions include damage, loss, or unreasonable delay due to "the Act of God, the public enemy, quarantine, the authority of law," or to strikes, riots, or such events; inherent defects in freight shipped; act or default of shipper, owner, or other person entitled to make requests upon carriers, and a few other causes. But for all ordinary risks to which freight is exposed in rail transportation, the railroad is responsible.

With ocean carriers, however, the case is different. Both by law and by the contract provisions of their bills of lading they

have a greatly limited liability. The Harter Act, passed by Congress in 1893, fixes the obligations of a steamship company in the United States. It is stated by this measure that:

"If the owner of any vessel transporting merchandise or property to or from any port in the United States of America shall exercise due diligence to make the said vessel in all respects seaworthy and properly manned, equipped, and supplied, neither the vessel, her owner, or owners, agent, or charterers shall become or be held responsible for damage or loss resulting from faults or errors in navigation or in the management of said vessel, nor shall the vessel, her owner or owners, charterers, agent, or master be held liable for losses arising from damages of the sea or other navigable waters, acts of God, or public enemies, or the inherent defect, quality, or vice of the thing carried, or from insufficiency of package, or seizure under legal process, or for loss resulting from any act or omission of the shipper or owner of the goods, his agent or representative, or from saving or attempting to save, life or property at sea, or from any deviation in rendering such service."

The conditions upon which carriers are liable under the Harter Act, in addition to making the vessel seaworthy, properly manned, provisioned, and outfitted, are "negligence, fault or failure in proper loading, stowage, custody, care or proper delivery."

While the agreements specified in ocean bills of lading are not all couched in the same terms, they free the carriers from liability for losses due to the principal hazards of navigation.

By special arrangement shippers can have the insurance apply from time of receipt of goods at the vessel and hold in force until they have been discharged at destination or received by the consignee. By the ordinary policy the risk is covered only when the goods are actually on the vessel.

If it is not specifically so stated all goods are shipped "under deck." If shipment is made "on deck," the insurance application must so specify. And in the case of freight carried "on deck" the insurance is free of claim for injury due to the elements, except in case of total loss.

Photograph by Edwin Levick, N. Y.

The picturesque port of Havre, France

All damage or loss of merchandise is not covered by marine insurance. Chafing or ordinary wear and tear of cargo practically certain in a sea voyage are not included in "perils of the sea." What is provided against is unusual occurrence, such as shifting of cargo caused by stress of weather, damage by sea water, and such other casualties as may be covered by agreement in each individual case. Loss from theft or pilferage is covered in the ordinary policy and must be arranged for especially.

Various Forms of Insurance

Besides underwriting associations such as Lloyd's, there are marine insurance companies, self-insurance plans, and (a creation of the war) Government marine insurance plans. In the Corporation of Lloyd's, which has had headquarters at London since the middle of the seventeenth century, there is represented the main center of marine insurance throughout the world. It was not incorporated until 1871. No marine underwriting is undertaken by Lloyd's as an association. It is an exchange in which a group of underwriters each conducts business independently. Shipping news is also collected by Lloyd's.

Many regularly incorporated insurance companies also insure marine risks, especially in this country.

Of recent years, however, there has been a growing tendency for steamship companies to conduct self-insurance plans. In some cases passengers' baggage, property, and cargoes as well, are insured in this way; but the insurance of vessel property is most common. In Great Britain vessel owners, to a large extent, secure marine insurance through mutual associations of shipowners or clubs. Committees make assessments in proportion to the tonnage insured by the various members.

Various Kinds of Losses

Protection may be sought through marine insurance against various kinds of losses or liabilities. The "total loss" of the vessel, its freight, cargo, profits, or other insurable interest may be safeguarded against. Total destruction or damage to such an extent that the property is no longer of any practical value to the insured is termed an "actual total

The busy harbor of Genoa

loss." A "constructive total loss" is one in which the property, while only slightly damaged, is nevertheless of no value to its owner. It may be necessary, for instance, to abandon a ship although it has not been badly injured. By giving notice of abandonment in that case the insured's contract enables him to obtain the full amount of insurance on a "constructive total loss."

A "partial loss" is capable of settlement in accordance with either "particular average" or "general average" rules.

The "general average" is based on the principle that, in case of a deliberate voluntary sacrifice of a vessel, its cargo, or other property for the common welfare and safety, the whole loss should not be borne by the owners of the properties sacrificed, but should be divided on a fair proportional basis among all interests benefiting by the sacrifice.

Subsequent to the establishment of the act of voluntary sacrifice it is the duty of the owners of the vessel to appoint average adjusters, who draw up what is called a general average statement. This lists the disbursements made and the sacrifices incurred and distributes over the different interests involved (i. e., freight, cargo, and ship) the contribution due from each interest.

The principle of general average is thus explained by William Gow, an authority on marine insurance:

"A general average loss is a loss caused by or directly consequential on a general average act. It includes a general average expenditure as well as a general average sacrifice.

"There is a general average act where any extraordinary sacrifice or expenditure is voluntarily and reasonably made or incurred in time of peril for the purpose of preserving the property imperilled in the common adventure.

"When there is a general average loss, the party on whom it falls is entitled, subject to the conditions imposed by maritime law, to a rateable contribution from other parties interested and such a contribution is called a general average contribution."

In settlement on the basis of "particular average" the loss falls wholly on the owners of the property damaged or its insurers. This applies in cases where the damage to the insured property has been by accident or not through destruction in order to save other property.

Payment of salvage, the legal reward given those who save life and property at sea, is another cause of "partial loss." A vessel, for instance, towing to port another which it has found in distress, is entitled to claim salvage and the owner or insurer of vessel and cargo benefiting must pay the amount legally due.

Types of Policies

Types of marine insurance policies are very numerous, among the principal being "cargo," "freight," "vessel," "vessel and freight," "blanket," "cotton," "coal," "war risk," etc., the titles signifying the property protected. While most of the same kinds of policies are akin in general form and principal features, there is no uniform type.

Either "valued" or "open" policies may be secured. The "valued" type gives the agreed value of the property affected. In the case of the "open" policy, no value is stated and it must be ascertained in the event of loss.

"Floating" and "named" policies are also used. The "floating" policy specifies value of property insured, limits of voyage, and class or type of vessel to be employed. No particular vessel is named, however, the procedure being followed to enable the shipper to secure insurance on his goods before he has learned the name of the vessel upon which his goods will be shipped. It also provides him with protection in the event of a loss before he has made the in-

The port of Buenos Aires

surance specific. When the vessel's identity is known, the name is "declared" to the underwriter and indorsed on the policy, which then becomes a "named" instead of a "floating" policy. "Voyage" policies, covering a single trip of the vessel, and "time" policies, for a specified period, are also employed.

The use of marine insurance certificates is frequent. These are issued against policies and do away with the need of issuing copies of the policy to be used in connection with various commercial formalities. After obtaining insurance up to a specified total sum, for instance, an exporter can protect his bankers, consignees, exchange brokers, or creditors, by issuing certificates duly countersigned and serving the purposes of the actual policy.

Principle of Abandonment

An important principle for the importer to understand is that of abandonment as permitted under the customs regulations. It frequently happens that cargo reaches port in a condition that renders it totally or practically worthless for the importer's purposes. This may be due to deterioration during the voyage (as in the case of perishable goods), to injury, or to other causes. In such cases the importer by taking the proper steps may give up the goods and so avoid the further loss that would be occasioned by payment of duty. The sections of the customs regulations relating to abandonment are as follows:

"Art. 602—*Time—Quantity.*—An importer may within ten days after the date of entry as defined in article 233 abandon all or any portion of merchandise included in any invoice, and may be relieved from the payment of duty on the portion so abandoned, provided such portion shall amount to 10 per cent. or more of the total value or quantity of the invoice on which entry is made.

"The ten days include Sundays and holidays.

"The notice of such abandonment must be filed with the collector in writing.

"Art. 603—*Delivery and Examination.*—Merchandise to be abandoned must be deliverable, and the importer must deliver it at such place within the port of arrival as the collector may direct. If the importer shall fail to make delivery as directed, the collector will transfer such merchandise at the expense of the importer.

"The collector shall cause the abandoned merchandise to be examined and identified with that described in the invoice used in making the entry.

"ART. 604.—The collector shall sell the abandoned merchandise for the account of the United States and after paying the expense of the sale, deposit and account for the net proceeds under 'Miscellaneous receipts from customs.' No part of the proceeds shall be returned to the importer. If the merchandise is entirely worthless, or the expense of the sale would probably exceed the proceeds, the collector will immediately destroy the same."

THE "DRAW-BACK" SYSTEM

The refund of duties under the "drawback" system offers a means of large saving in foreign trade. The Government allows exporters, in cases where imported material is used in the manufacture of domestic merchandise, a "drawback," consisting of the import duty paid on the same, less one per cent. Medicinal and toilet preparations, including perfumery, made in the United States with the use of domestic tax-paid alcohol, are also subject to drawback, the amount being equivalent to the tax on the alcohol used.

It is required as a prerequisite to the allowance of the "drawback" that the material must pass through some process of manufacture, and a claim must be filed with the collector of customs at the port of exportation before the goods are loaded on the vessel, or cross the border into Mexico or Canada. The claim must be completed within three years from the date of exportation by filing the affidavits and certificates required; otherwise, it will be treated as abandoned. Before drawback can be claimed application must be made to the Treasury Department at Washington.

It is not necessary that manufacturers, in order to take advantage of the "drawback" provision, should have imported the material used by them. Nor is it required that the export shipments should be made in their name, or for their account.

Documents used in connection with the entering of imports through the Custom House are too numerous and too complicated to be detailed here. Several hundred different kinds of blank forms are employed. Custom House brokers or specialists are engaged by most importers to see that the formalities required by the Government are properly complied with. The most important documents needed are the ocean bill of lading, the consular

The harbor of Valparaiso, Chile

invoice, if value of the goods imported exceeds \$100, or plain invoice if the value is \$100 or less.

The whole subject of duties and appraisement is likewise too complex and voluminous to make any attempt at even a general description possible here; but specific information on this subject can be obtained through the Foreign Trade Bureau of the Guaranty Trust Company of New York. One point that should be noted, however, is that in case a consignee has no invoice and the value of the goods to be imported is less than \$100, he may enter his goods under a so-called appraisement. The United States appraiser will then establish the value and assess duty accordingly.

In order to import duty-free American goods that have been exported and are shipped back to the United States, it is necessary that a "declaration" should be made at the office of the American consulate in the district from which the goods are shipped, or at the port of shipment. This declaration must state that the goods have not been advanced in value, or improved in condition by any process of manufacture, or other means, while abroad. A bond may be given for the production of the declaration if it is impracticable to produce it at the time of entry. If the value of the merchandise does not exceed \$100 the declaration may be waived by the United States customs officials.

In addition to the declaration, a certificate must be obtained from the collector of the port from which the goods were shipped originally. This certificate must state that the goods are the same and have not been advanced in value or altered in any way since leaving the United States. The certificate will be issued only when the collector's record of Custom House clearances shows the actual exportation of the goods in the first place, as claimed. In case the certificate has not been obtained, a bond may be given for its production in a sum equal to what the duties would be if the merchandise were foreign.

Banking Facilities

Banking institutions hold a prominent part in the development of foreign trade, for it is chiefly through this medium that the financing of exports and imports is effected. The growing use of acceptances is an important factor in the extension of international commerce.

Payment for the goods purchased may be arranged in a number of ways.

The purchaser may remit with the order. He may open a bank credit in favor of the seller, or the seller may draw a draft on the purchaser, or ship the goods on open account and await remittance. Other methods are also available.

Where remittance is made with the order the advantage is with the shipper. He receives payment for his goods in advance and the purchaser must wait, perhaps months, before receiving his order, and may have to hold the material for a considerable period, pending sale. On the other hand, if the buyer has surplus cash on hand he is often in a position to secure the goods he needs at special prices.

In the case of the seller shipping on open account and awaiting remittance the burden of the financing falls upon him, much as it does upon the buyer when the latter remits with order.

Where the shipper draws upon the purchaser the procedure is, briefly, as follows:

A draft payable to his own order is drawn by the seller on the buyer. To this are attached the necessary documents in connection with the sale and shipment of the goods, bills of lading, marine insurance policy, invoices, etc. The seller indorses the draft, thus guaranteeing its

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Shanghai, overlooking the Soochow River

payment, and it can be sold or discounted in New York City through an agent or correspondent of a bank doing business in the locality in which the purchaser carries on his business. At the expiration of the period specified in the draft the purchaser pays the amount due and the transaction is closed.

The acceptance plan, however, has a number of advantages over the system whereby the seller draws direct on the buyer. There are two main methods in connection with the use of acceptances in trade:

1. Establishment of commercial credits authorizing the bank giving them to accept and negotiate drafts made upon it by the seller.

2. Furnishing by the purchaser to the seller of the name of the bank abroad upon which he may draw.

Domestic bankers' acceptances, as created by the first method, are regarded as most desirable paper. The importer's bank provides the seller with reimbursement by guaranteeing acceptance and payment of drafts drawn by him on his bank. The accepting bank forwards the documents covering the merchandise to the one opening the credit. The bills accepted have a ready market.

What are known as foreign exchange bills or bankers' bills are created by the second method. They have the necessary bills of lading, invoices, etc., attached to them and are drawn in the currency of the importing country. After being purchased from the drawer at current exchange rates they are forwarded by the purchasing bank for acceptance to the bank designated.

A bank acceptance may be defined as an extension of the bank's credit to a customer, wherein the bank, for a consideration, permits the customer to avail himself of this privilege.

Bank acceptances offer distinct advantages both to business men and the banks through which they deal.

Through the use of acceptances, trust companies and banks can finance business dealings of their customers conveniently.

Advantages of Acceptances

Acceptances of well known financial institutions will be increasingly sought as short term investments because of the ready market for them. They furnish an advantageous opportunity for the use of surplus banking funds.

To those engaging in foreign trade marked advantages are offered. The difficulty experienced by exporters in giving credit terms as favorable as those given foreign buyers by competitors abroad makes a case in point. The foreign commerce of the United States has been hampered by the custom of many American exporters to require payment in cash at New York against documents. Through the use of bank acceptances this may be obviated. Credit may be established by the American exporter by drawing at sixty or ninety days on a New York accepting trust company or bank, and the acceptance can be discounted at an agreed rate.

The exporter also gains the advantage of receiving immediate payment for his goods, and his capital, instead of being tied up in credits, is released for new business.

The difference between trade acceptances and bankers' acceptances is as follows: A trade acceptance results from a transaction between buyer and seller; a banker's acceptances from the granting of credit by a banker. The buyer accepts the draft in the case of the trade acceptance, the bank in the case of the bank acceptance.

The desirability of drafts drawn on the foreign buyer direct is not of the same grade as that of bank acceptances. In order to secure his goods the buyer must obtain the essential documents connected with the sale and shipment. They must therefore be released to him when he accepts the draft and the security is thereby removed from the control of the holder. The risk, in consequence, devolves upon the names of the maker and acceptor. In the case of a foreign acceptor other than a bank the risk is regarded as too indefinite to make the paper a desirable purchase.

The bank acceptance is made a security of the highest class by the standing and credit of the accepting bank. As the responsibility lies first with the accepting bank there is no necessity for close investigation of the drawers or indorsers. The other parties to the transaction are secondary if the bank's credit is satisfactory.

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American goods en route to their destination in China

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